

Message Text

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TAGS: ENRG, NO

SUBJECT: PREFERENCES TO NORWEGIAN-ORIGIN EQUIPMENT AND SERVICES
FOR OOF-SHORE OIL INDUSTRY

REFS: (A) STATE 162985; (B) OSLO A-143 OF 19 JULY 1974;

(C) OSLO 1275 OF 25 MARCH 1974

1. NORWEGIAN POLICY IS THAT NORWEGIAN GOODS AND SERVICES SHALL BE USED ON THE NORWEGIAN CONTINENTAL SHELF IF THEY ARE COMPETITIVE IN TERMS OF PRICE, QUALITY, AND DELIVERY TIME. HISTORY AND TERMS OF THIS POLICY ARE SPELLED OUT IN DETAIL IN REPORT NO. 30, CHAPTER 13, TO THE NORWEGIAN STORTING (PARLIAMENT) 1973-74 ON "OPERATIONS ON THE NORWEGIAN CONTINENTAL SHELF, ETC." EIGHT COPIES OF TRANSLATION INTO ENGLISH OF THIS REPORT WERE SUBMITTED TO THE DEPARTMENT UNDER COVER OF OSLO A-143.

2. STOLTENBERG IS A NEWCOMER TO THE NORWEGIAN MINISTRY OF COMMERCE AND MAY BE UNFAMILIAR WITH PREFERENCE REGULATIONS WHICH ARE NOW WRITTEN INTO ALL PRODUCTION LICENSES. ALTHOUGH REGULATIONS ARE NOT SPECIFICALLY INCLUDED IN CONCESSION AGREEMENTS FOR EXPLORATION, OIL COMPANIES ADVISE THAT STATOIL, NORWAY'S PUBLIC SECTOR OIL COMPANY, INSISTS THAT PREFERENCE BE GIVEN NORWEGIAN SUPPLIERS IN ALL BLOCKS WHERE IT HAS 50 PERCENT OR GREATER INTEREST. SINCE THIS IS THE CASE WITH ALL RECENT AWARDS EFFECT IS SAME AS IF IT

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WERE IN AGREEMENTS THEMSELVES. EXPENSES OF EXPLORATION ARE NOT,

HOWEVER, AS GREAT AS DEVELOPMENT COSTS.

3. EMBASSY UNDERSTANDS THAT USE OF NORWEGIAN GOODS AND SERVICES BY COMPANIES IN DEVELOPING OIL AND GAS FIELDS IS REVIEWED AT PERIODIC MEETINGS WITH THE MINISTRY OF INDUSTRY. WORLD ECONOMIC SLOWDOWN HAS PARTICULARLY AFFECTED NORWEGIAN SHIPBUILDERS AND OTHER COMPANIES WHICH SUPPLY EQUIPMENT TO SHIPBUILDERS. THESE CONCERNS ALSO TEND TO BE MAJOR NORWEGIAN SUPPLIERS OF OIL FIELD EQUIPMENT, AND AMERICAN OIL COMPANIES REPORT GREATLY INCREASED PRESSURE TO USE NORWEGIAN GOODS AND SERVICES SINCE SLOWDOWN.

4. FOREIGN MINISTRY OPPOSED THE PREFERENCES WHEN POLICY WAS FIRST INTRODUCED ON GROUNDS THAT IT CONFLICTED WITH NORWAY'S FREE TRADE POLICY AND INTERESTS IN MAINTAINING FREE ACCESS ELSEWHERE FOR NORWEGIAN EXPORTS AND SHIPS. HOWEVER, MINISTRY WAS OVERRULED BECAUSE GOVERNMENT BELIEVED PREFERENCE POLITICALLY DESIRABLE AS MEANS OF ASSURING MAXIMUM NORWEGIAN PARTICIPATION IN DEVELOPMENT OF NORWAY'S OIL AND GAS. NORWAY'S RESTRICTIVE OIL AND GAS DEVELOPMENT POLICY IS ALSO INCONSISTENT WITH ITS TRADITIONAL FREE TRADE POLICY AND, PERHAPS RECOGNIZING THIS, FOREIGN MINISTER FRYDENLUND HAS HINTED AT CHANGES IN THIS FREE TRADE POLICY (SEE OSLO 1275).

5. OIL COMPANIES HAVE GENERALLY BEEN ANXIOUS TO DEMONSTRATE THEIR WILLINGNESS TO COOPERATE WITH THE NORWEGIAN GOVERNMENT AND TO OPERATE AS GOOD CORPORATE CITIZENS IN NORWAY. THEY HAVE CHanneled AS MUCH PROCUREMENT TO NORWEGIAN SUPPLIERS AS POSSIBLE BUT, GIVEN TIGHTNESS OF NORWEGIAN EMPLOYMENT AND OF ORDER BOOK SITUATION UNTIL RECENT SLOWDOWN BEGAN TO BE FELT LAST SPRING, THIS RESULTED IN RELATIVELY MODEST DIVERSION OF PURCHASES TO NORWEGIAN SUPPLIERS. ECONOMIC SLOWDOWN IN NORWAY HAS CHANGED SITUATION, HOWEVER, AND OIL COMPANIES ARE CONCERNED. GOVERNMENT IS UNDERSTOOD NOW TO BE EXERTING REAL PRESSURE TO SWING AS MUCH AS POSSIBLE OF THE BUSINESS, ESPECIALLY BIG ITEMS, TO NORWEGIAN COMPANIES.

6. EMBASSY HAS BEEN SOMEWHAT RELUCTANT TO RAISE ISSUE OF PREFERENCES WITH NORWEGIAN GOVERNMENT BECAUSE OF REPORTED SHORTAGES OF U.S. OIL DRILLING EQUIPMENT WHICH EMBASSY UNDERSTANDS HAVE LED THE EXIM BANK TO LIMIT THE ACCESSIBILITY OF ITS LOANS FOR LIMITED OFFICIAL USE

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FINANCING EXPORTS OF SUCH EQUIPMENT THEREBY DISCOURAGING PROCUREMENT IN THE U.S. WHILE EMBASSY HAS HEARD COMPLAINTS ABOUT PREFERENCES FROM OTHER COUNTRIES, E.G., FRANCE, AND BELGIUM, THESE COMPLAINTS ARE NOT BELIEVED TO HAVE BEEN RAISED WITH NORWEGIAN GOVERNMENT. THIS MAY BE OUT OF CONCERN THAT NORWEGIAN GOVERNMENT WILL FAVOR COMPANIES WHOSE GOVERNMENTS ACCEPT PREFERENCES WHEN GRANTING FUTURE CONCESSIONS.

7. THERE ARE PROS AND CONS TO CONSULTING OTHER INTERESTED COUNTRIES BEFORE RAISING ISSUE WITH NORWEGIANS AND TO RAISING IT IN MULTI-LATERAL FORUM SUCH AS OECD, GATT, OR, POSSIBLY, IEA RATHER THAN FIRST RAISING IT BILATERALLY. BEFORE ISSUE IS PURSUED FURTHER EMBASSY WOULD APPRECIATE RECEIVING INFORMATION (A) ON U.S. POSITION ON PREFERENCES SIMILAR TO THOSE GIVEN BY NORWAY, (B) ON PREVIOUS CASES INVOLVING PREFERENCES AND WAY THEY WERE HANDLED, AND (C) STATUS OF EXIM POLICY AND PROCEDURES FOR FINANCING EXPORTS OF OIL DRILLING EQUIPMENT.

8. IF DEPARTMENT DECIDES ISSUE SHOULD FIRST BE RAISED BILATERALLY WITH NORWEGIANS TO AVOID EMBARRASSING THEM PUBLICALLY OR GIVING APPEARANCE OF GANGING UP ON THEM, EMBASSY AGREES THAT FIRST TARGET SHOULD BE STOLTENBERG IN VIEW OF HIS CONERSATION WITH FOX (STATE 162985) AND HIS MINISTRY'S RESPONSIBILITY FOR FOREIGN TRADE. EMBASSY BELIEVES, HOWEVER, ISSUE SHOULD ALSO BE DISCUSSED WITH FOREIGN MINISTRY AS WEEL AS WITH MINISTRY OF INDUSTRY, WHICH IS REPSONSIBLE FOR OIL, AND WITH MINISTRY OF FINANCE, WHICH IS RESPON S-
IBLE FOR OVERALL ECONOMIC POLICY.
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